

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1678 - HB 1563

March 6, 2014

SUMMARY OF BILL: Increases the Hall Income Tax (HIT) maximum allowable exemption level, for single filer taxpayers 65 years of age or older, from \$33,000 to: \$36,000 in tax year 2014, \$46,000 in tax year 2015, \$56,000 in tax year 2016, \$66,000 in tax year 2017, \$76,000 in tax year 2018, \$86,000 in tax year 2019, and \$96,000 in tax year 2020 and thereafter. Increases the HIT maximum allowable exemption level, for joint filer taxpayers 65 years of age or older, from \$59,000 to: \$69,000 in tax year 2014, \$79,000 in tax year 2015, \$89,000 in tax year 2016, \$99,000 in tax year 2017, \$109,000 in tax year 2018, \$119,000 in tax year 2019, and \$129,000 in tax year 2020 and thereafter.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$1,366,100/FY14-15
\$3,937,700/FY15-16
\$6,573,600/FY16-17
\$9,225,500/FY17-18
\$11,764,900/FY18-19
\$13,950,800/FY19-20
\$15,863,400/FY20-21 and Subsequent Years

Decrease Local Revenue – Net Impact – \$738,900/FY14-15
\$2,129,700/FY15-16
\$3,555,300/FY16-17
\$4,989,600/FY17-18
\$6,363,000/FY18-19
\$7,545,300/FY19-20
\$8,579,700/FY20-21 and Subsequent Years

Other Fiscal Impact – Secondary economic impact may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock and from interest on bonds.
- Given the proposed changes to HIT income exemption levels shall be applied to tax years beginning with tax year 2014, and assuming that 100 percent of HIT owed for tax year 2014 is collected no later than June 30, 2015, the first year impacted by this bill will be FY14-15. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee staff estimate for HIT collections in FY14-15 is \$260,000,000. This number is assumed to remain constant into perpetuity.
- Based on data provided by the Department of Revenue, it is estimated that the proposed increases in the exemption levels for taxpayers 65 years of age or older will result in a 0.85 percent decrease in HIT collections in FY14-15, a 2.45 percent decrease in FY15-16, a 4.09 percent decrease in FY16-17, a 5.74 percent decrease in FY17-18, a 7.32 percent decrease in FY18-19, a 8.68 percent decrease in FY19-20, and a 9.87 percent decrease in FY20-21 and subsequent years.
- The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- The decrease in HIT collections is estimated to be: \$2,210,000 ($\$260,000,000 \times 0.85\%$) in FY14-15, \$6,370,000 ($\$260,000,000 \times 2.45\%$) in FY15-16, \$10,634,000 ($\$260,000,000 \times 4.09\%$) in FY16-17, \$14,924,000 ($\$260,000,000 \times 5.74\%$) in FY17-18, \$19,032,000 ($\$260,000,000 \times 7.32\%$) in FY18-19, \$22,568,000 ($\$260,000,000 \times 8.68\%$) in FY19-20, and \$25,662,000 ($\$260,000,000 \times 9.87\%$) in FY20-21 and subsequent years.
- Based on apportionments of HIT collections for the last three fiscal years (FY10-11, FY11-12, and FY12-13), it is estimated that the state retains 65.19 percent of HIT revenue and local governments are apportioned 34.81 percent.
- The decrease in HIT revenue for the state is estimated to be: \$1,440,699 ($\$2,210,000 \times 65.19\%$) in FY14-15, \$4,152,603 ($\$6,370,000 \times 65.19\%$) in FY15-16, \$6,932,305 ($\$10,634,000 \times 65.19\%$) in FY16-17, \$9,728,956 ($\$14,924,000 \times 65.19\%$) in FY17-18, \$12,406,961 ($\$19,032,000 \times 65.19\%$) in FY18-19, \$14,712,079 ($\$22,568,000 \times 65.19\%$) in FY19-20, and \$16,729,058 ($\$25,662,000 \times 65.19\%$) in FY20-21 and subsequent years.
- The decrease in HIT revenue for the local government is estimated to be: \$769,301 ($\$2,210,000 \times 34.81\%$) in FY14-15, \$2,217,397 ($\$6,370,000 \times 34.81\%$) in FY15-16, \$3,701,695 ($\$10,634,000 \times 34.81\%$) in FY16-17, \$5,195,044 ($\$14,924,000 \times 34.81\%$) in FY17-18, \$6,625,039 ($\$19,032,000 \times 34.81\%$) in FY18-19, \$7,855,921 ($\$22,568,000 \times 34.81\%$) in FY19-20, and \$8,932,942 ($\$25,662,000 \times 34.81\%$) in FY20-21 and subsequent years.
- Fifty percent of tax savings will be spent in the economy on sales taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.

- Pursuant to Tenn. Code Ann. § 67-6-103(p), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% $[(5.5\%/7.0\%) \times 4.603\%]$.
- The net increase in state sales tax revenue in FY14-15 is estimated to be \$74,552 $[(\$2,210,000 \times 50.0\% \times 7.0\%) - (\$2,210,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY14-15 is estimated to be \$30,423 $[(\$2,210,000 \times 50.0\% \times 2.5\%) + (\$2,210,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY15-16 is estimated to be \$214,886 $[(\$6,370,000 \times 50.0\% \times 7.0\%) - (\$6,370,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY15-16 is estimated to be \$87,689 $[(\$6,370,000 \times 50.0\% \times 2.5\%) + (\$6,370,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY16-17 is estimated to be \$358,728 $[(\$10,634,000 \times 50.0\% \times 7.0\%) - (\$10,634,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY16-17 is estimated to be \$146,387 $[(\$10,634,000 \times 50.0\% \times 2.5\%) + (\$10,634,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY17-18 is estimated to be \$503,447 $[(\$14,924,000 \times 50.0\% \times 7.0\%) - (\$14,924,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY17-18 is estimated to be \$205,443 $[(\$14,924,000 \times 50.0\% \times 2.5\%) + (\$14,924,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY18-19 is estimated to be \$642,026 $[(\$19,032,000 \times 50.0\% \times 7.0\%) - (\$19,032,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY18-19 is estimated to be \$261,994 $[(\$19,032,000 \times 50.0\% \times 2.5\%) + (\$19,032,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY19-20 is estimated to be \$761,310 $[(\$22,568,000 \times 50.0\% \times 7.0\%) - (\$22,568,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY19-20 is estimated to be \$310,670 $[(\$22,568,000 \times 50.0\% \times 2.5\%) + (\$22,568,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net increase in state sales tax revenue in FY20-21 and subsequent years is estimated to be \$865,683 $[(\$25,662,000 \times 50.0\% \times 7.0\%) - (\$25,662,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$. The total increase in local sales tax revenue in FY20-21 and subsequent years is estimated to be \$353,262 $[(\$25,662,000 \times 50.0\% \times 2.5\%) + (\$25,662,000 \times 50.0\% \times 7.0\% \times 3.617\%)]$.
- The net decrease in state revenue as a result of this bill is estimated to be: \$1,366,147 in FY14-15, \$3,937,717 in FY15-16, \$6,573,577 in FY16-17, \$9,225,509 in FY17-18, \$11,764,935 in FY18-19, \$13,950,769 in FY19-20, and \$15,863,375 in FY20-21 and subsequent years.
- The net decrease in local revenue as a result of this bill is estimated to be: \$738,878 in FY14-15, \$2,129,708 in FY15-16, \$3,555,308 in FY16-17, \$4,989,601 in FY17-18, \$6,363,045 in FY18-19, \$7,545,251 in FY19-20, and \$8,579,680 in FY20-21 and subsequent years.
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of

reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population increases. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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